

**REPORT OF THE AUDIT OF THE  
MARSHALL COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Mike Miller, Marshall County Judge/Executive  
Members of the Marshall County Fiscal Court

The enclosed report prepared by Kem, Duguid & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Kem, Duguid & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Kem, Duguid & Associates, PSC evaluated the Marshall County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MARSHALL COUNTY FISCAL COURT**

**June 30, 2005**

Kem, Duguid & Associates, PSC has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion, based on our audit and the report of the other auditors, on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Marshall County, Kentucky.

#### **Financial Condition:**

The fiscal court had total net assets of \$15,305,609 as of June 30, 2005. The fiscal court had unrestricted net assets of \$4,734,087 in its governmental funds as of June 30, 2005, with total net assets of \$15,212,809. In its enterprise fund, total net cash and cash equivalents were \$92,800 with total net assets of \$92,800. The fiscal court's discretely presented component unit had net assets of \$1,713,608 as of June 30, 2005. The discretely presented component unit had net cash and cash equivalents of \$396,455. The fiscal court had total debt principal as of June 30, 2005 of \$7,437,705 with \$248,531 due within the next year.

#### **Report Comments:**

- Health Insurance Premiums Totaling \$29,839 Were Improperly Paid On Behalf Of Employees
- Reimbursement Was Paid to A Magistrate In Excess Of Fiscal Court Policy
- Bank Accounts Were Improperly Listed Under The County's Federal Identification Number

#### **Deposits:**

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.



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KEM, DUGUID & ASSOCIATES, P.S.C.

*Certified Public Accountants*

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MICHAEL A. KEM

SANDRA D. DUGUID

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John Farris, Secretary  
Finance and Administration Cabinet  
Honorable Mike Miller, Marshall County Judge/Executive  
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Marshall County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marshall County Refuse Disposal District, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Marshall County Refuse Disposal District, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Marshall County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with the basis of accounting described in Note 1.

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MEMBERS:

American Institute of Certified Public Accountants

Kentucky Society of Certified Public Accountants

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John Farris, Secretary  
Finance and Administration Cabinet  
Honorable Mike Miller, Marshall County Judge/Executive  
Members of the Marshall County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basis financial statements. The Budgetary Comparison Information is not a required part of the basis financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marshall County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2005 on our consideration of Marshall County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the following comments and recommendations, included herein, which discusses the following report comments:

- Health Insurance Premiums Totaling \$29,839 Were Improperly Paid On Behalf Of Employees
- Reimbursement Was Paid To A Magistrate In Excess Of Fiscal Court Policy
- Bank Accounts Were Improperly Listed Under The County's Federal Identification Number

Respectfully submitted,

*Kem, Duguid & Associates*

Kem, Duguid & Associates, PSC

Audit fieldwork completed -  
November 21, 2005

## MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2005

### **Fiscal Court Members:**

Mike Miller	County Judge/Executive
Jerry English	Magistrate
Gordon Hargrove	Magistrate
Jerome Hicks	Magistrate

### **Other Elected Officials:**

Jeff Edwards	County Attorney
Roger Ford	Jailer
Dan Duke	County Clerk
Carol Fisk	Circuit Court Clerk
Terry Anderson	Sheriff
Ann Riley	Property Valuation Administrator
Mitchell Lee	Coroner

### **Appointed Personnel:**

Tim York	County Treasurer
Angie Murphy	Occupational Tax Collector
Emily West	Finance Officer
Gary Atkins	Road Supervisor
Marsha Penny	911 Administrator
Lauri Ford	Jail Administrative Assistant/Bookkeeper

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**MARSHALL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**MARSHALL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	Primary Government			Component Unit
	Governmental	Business-Type		Marshall County
	Activities	Activities	Totals	Refuse Disposal District
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 5,268,553	\$ 92,800	\$ 5,361,353	\$ 396,455
Investments	693,878		693,878	
Total Current Assets	5,962,431	92,800	6,055,231	396,455
Noncurrent Assets:				
Notes Receivable	22,000		22,000	
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	1,907,400		1,907,400	690,494
Buildings	11,347,246		11,347,246	129,233
Vehicles and Equipment	1,809,870		1,809,870	510,721
Infrastructure Assets - Net of Depreciation	1,601,567		1,601,567	
Total Noncurrent Assets	16,688,083		16,688,083	1,330,448
Total Assets	22,650,514	92,800	22,743,314	1,726,903
<b>LIABILITIES</b>				
Current Liabilities:				
Bonds Payable	245,000		245,000	
Financing Obligations	3,531		3,531	
Payroll Liabilities				13,295
Total Current Liabilities	248,531		248,531	13,295
Noncurrent Liabilities:				
Bonds Payable	7,100,000		7,100,000	
Financing Obligations	89,174		89,174	
Total Noncurrent Liabilities	7,189,174		7,189,174	
Total Liabilities	7,437,705		7,437,705	13,295
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	\$ 9,228,378	\$	\$ 9,228,378	\$ 1,330,448
Restricted For:				
Capital Projects	1,215,516		1,215,516	
Debt Service	34,828		34,828	
Unrestricted	4,734,087	92,800	4,826,887	383,160
Total Net Assets	\$ 15,212,809	\$ 92,800	\$ 15,305,609	\$ 1,713,608

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**MARSHALL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,719,361	\$ 114,325	\$ 280,881	\$
Protection to Persons and Property	1,955,938	1,217,664	485,498	
General Health and Sanitation	265,705			
Social Services	834,437	325,346		
Recreation and Culture	631,966		90,093	
Roads	1,798,573	102,696		1,081,666
Debt Service	406,666	21,775		
Capital Projects	75,000			
Total Governmental Activities	10,687,646	1,781,806	856,472	1,081,666
Business-type Activities:				
Jail Canteen	5,057			
Total Business-type Activities	5,057			
Total Primary Government	\$ 10,692,703	\$ 1,781,806	\$ 856,472	\$ 1,081,666
Component Unit:				
Marshall County Refuse Disposal District	\$ 1,709,811	\$	\$ 43,768	\$
Total Component Unit	\$ 1,709,811	\$ -	\$ 43,768	\$ -

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

In Lieu of Tax Payments

Excess Fees

Miscellaneous Revenues

Transfer from Fiscal Court

Interest Earned

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**MARSHALL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Marshall County Refuse Disposal District
\$ (4,324,155)	\$	\$ (4,324,155)	\$
(252,776)		(252,776)	
(265,705)		(265,705)	
(509,091)		(509,091)	
(541,873)		(541,873)	
(614,211)		(614,211)	
(384,891)		(384,891)	
(75,000)		(75,000)	
(6,967,702)		(6,967,702)	
	(5,057)	(5,057)	
	(5,057)	(5,057)	
(6,967,702)	(5,057)	(6,972,759)	
			\$ (1,666,043)
			\$ (1,666,043)
1,182,399		1,182,399	
151,180		151,180	
243,894		243,894	
4,858,924		4,858,924	1,325,985
462,372		462,372	
229,868		229,868	
271,584	12,857	284,441	11,945
-			500,000
126,013	91	126,104	4,047
7,526,234	12,948	7,539,182	1,841,977
558,532	7,891	566,423	175,934
14,654,277	84,909	14,739,186	1,537,674
\$ 15,212,809	\$ 92,800	\$ 15,305,609	\$ 1,713,608

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

**MARSHALL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>General Fund</b>	<b>Road And Bridge Fund</b>	<b>Jail Fund</b>	<b>Occupational Tax Fund</b>	<b>Occupational Tax Administrator Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,012,339	\$ 359,600	\$ 134,192	\$ 254,879	\$ 2,334,143
Investments					
Total Assets	<u>\$ 1,012,339</u>	<u>\$ 359,600</u>	<u>\$ 134,192</u>	<u>\$ 254,879</u>	<u>\$ 2,334,143</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 34,580	\$ 60	\$ 2,526	\$ 13,028	\$
Unreserved:					
General Fund	977,759				
Special Revenue Funds		359,540	131,666	241,851	2,334,143
Capital Projects Fund					
Debt Service Fund					
Total Fund Balances	<u>\$ 1,012,339</u>	<u>\$ 359,600</u>	<u>\$ 134,192</u>	<u>\$ 254,879</u>	<u>\$ 2,334,143</u>

**MARSHALL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2005**  
**(Continued)**

<b>Public Properties Corporation Justice Center Debt Service Fund</b>	<b>Public Properties Corporation Justice Center Capital Projects Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$ 556,466	\$ 616,934	\$ 5,268,553
34,828	659,050		693,878
<u>\$ 34,828</u>	<u>\$ 1,215,516</u>	<u>\$ 616,934</u>	<u>\$ 5,962,431</u>

\$	\$	\$	\$ 50,194
			977,759
		616,934	3,684,134
	1,215,516		1,215,516
<u>34,828</u>			<u>34,828</u>
<u>\$ 34,828</u>	<u>\$ 1,215,516</u>	<u>\$ 616,934</u>	<u>\$ 5,962,431</u>

**Reconciliation Of The Balance Sheet-Governmental Funds To The Statement Of Net Assets:**

Total Fund Balances	\$ 5,962,431
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	22,142,656
Accumulated Depreciation	(5,476,573)
Notes Receivable	22,000
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(92,705)
Bonded Debt	<u>(7,345,000)</u>
Net Assets Of Governmental Activities	<u>\$ 15,212,809</u>

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**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<u>General Fund</u>	<u>Road And Bridge Fund</u>	<u>Jail Fund</u>	<u>Occupational Tax Fund</u>
<b>REVENUES</b>				
Taxes	\$ 2,373,004	\$	\$	\$
In Lieu Tax Payments	462,372			
Excess Fees	229,868			
Licenses and Permits	88,853			
Intergovernmental	674,134	1,081,666	1,312,717	
Charges for Services	364,545	102,697	22,625	
Miscellaneous	215,257	21,202	44,062	
Interest	13,735	7,901	2,235	7,031
Total Revenues	<u>4,421,768</u>	<u>1,213,466</u>	<u>1,381,639</u>	<u>7,031</u>
<b>EXPENDITURES</b>				
General Government	1,999,867			
Protection to Persons and Property	422,122		1,133,273	
General Health and Sanitation	212,763			42,782
Social Services	434,437			400,000
Recreation and Culture	83,913			558,429
Roads		1,093,183		1,234,260
Debt Service	21,815			
Capital Projects	75,000			
Administration	2,009,208	144,652	192,012	43,970
Total Expenditures	<u>5,259,125</u>	<u>1,237,835</u>	<u>1,325,285</u>	<u>2,279,441</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(837,357)</u>	<u>(24,369)</u>	<u>56,354</u>	<u>(2,272,410)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	1,000,000			2,400,000
Transfers To Other Funds	(110,758)			
Total Other Financing Sources (Uses)	<u>889,242</u>			<u>2,400,000</u>
Net Change in Fund Balances	51,885	(24,369)	56,354	127,590
Fund Balances - Beginning (Restated)	960,454	383,969	77,838	127,289
Fund Balances - Ending	<u>\$ 1,012,339</u>	<u>\$ 359,600</u>	<u>\$ 134,192</u>	<u>\$ 254,879</u>

The accompanying notes are an integral part of the financial statements.

**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Occupational Tax Administrator Fund</b>	<b>Public Properties Corporation Justice Center Debt Service Fund</b>	<b>Public Properties Corporation Justice Center Capital Projects Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 3,753,964	\$	\$	\$ 309,429	\$ 6,436,397
				462,372
				229,868
				88,853
			72,707	3,141,224
				489,867
			63	280,584
31,748	268	49,960	13,135	126,013
<u>3,785,712</u>	<u>268</u>	<u>49,960</u>	<u>395,334</u>	<u>11,255,178</u>
158,702				2,158,569
			428,442	1,983,837
			10,160	265,705
				834,437
				642,342
				2,327,443
	632,950	2,030		656,795
				75,000
			57,234	2,447,076
<u>158,702</u>	<u>632,950</u>	<u>2,030</u>	<u>495,836</u>	<u>11,391,204</u>
3,627,010	(632,682)	47,930	(100,502)	(136,026)
	650,174	110,758		4,160,932
(3,400,000)		(650,174)		(4,160,932)
<u>(3,400,000)</u>	<u>650,174</u>	<u>(539,416)</u>		
227,010	17,492	(491,486)	(100,502)	(136,026)
2,107,133	17,336	1,707,002	717,436	6,098,457
<u>\$ 2,334,143</u>	<u>\$ 34,828</u>	<u>\$ 1,215,516</u>	<u>\$ 616,934</u>	<u>\$ 5,962,431</u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**MARSHALL COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**Reconciliation Of The Statement of Revenues, Expenditures, and Changes  
In Fund Balance-Governmental Funds To The Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ (136,026)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Assets disposed of, net book value	(11,472)
Capital Outlay	1,193,420
Depreciation Expense	(728,520)

Notes Receivable principal received are receipted in the Governmental Funds as source of current financial resources. These transaction have no effect on net assets.	(9,000)
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Financing obligations and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions have no effect on net assets.

Financing Obligations	15,130
Bond Payments	235,000

Change in Net Assets of Governmental Activities	\$ 558,532
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**MARSHALL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**



**MARSHALL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 92,800
Total Current Assets	<u>92,800</u>
<b>Net Assets</b>	
Unrestricted	92,800
Total Net Assets	<u><u>\$ 92,800</u></u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 12,857
Total Operating Revenues	<u>12,857</u>
<b>Operating Expenses</b>	
Educational and Recreational	<u>5,057</u>
Total Operating Expenses	<u>5,057</u>
Operating Income	<u>7,800</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	<u>91</u>
Total Nonoperating Revenues	<u>91</u>
Change In Net Assets	7,891
Total Net Assets - Beginning	<u>84,909</u>
Total Net Assets - Ending	<u><u>\$ 92,800</u></u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**MARSHALL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Canteen Commissions	\$ 12,857
Educational and Recreational	<u>(5,057)</u>
Net Cash Provided By	
Operating Activities	<u>7,800</u>
 <b>Cash Flows From Investing Activities</b>	
Interest Earned	<u>91</u>
Net Cash Provided By	
Investing Activities	<u>91</u>
Net Increase in Cash and Cash	
Equivalents	7,891
Cash and Cash Equivalents - July 1, 2004	<u>84,909</u>
Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 92,800</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income	<u>\$ 7,800</u>
Net Cash Provided By Operating	
Activities	<u><u>\$ 7,800</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term liabilities are recorded on the statement of net assets and include bonds and financing obligations. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Marshall County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Unit (Continued)

Marshall County Public Properties Corporation

The Marshall County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Corporation is blended with Marshall County's financial statements.

Discretely Presented Component Units

The component unit's columns in the combined financial statements include the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize the organization's separateness from the fiscal court's primary government.

Marshall County Refuse Disposal District

The Marshall County Fiscal Court appoints a voting majority of the Marshall County Refuse Disposal District governing board. The fiscal court is financially accountable and legally obligated for the debt of the refuse district. Financial information for the refuse district is presented discretely within Marshall County's financial statements. All activities of the refuse district are accounted for within a governmental fund.

Audited financial statements for the Marshall County Refuse Disposal District, a discretely presented component unit, may be requested by contacting the Marshall County Treasurer, 1101 Main Street, P.O. Box 114, Benton, Kentucky 42025.

**C. Marshall County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Marshall County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Marshall County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road and Bridge Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Occupational Tax Fund - The primary purpose of this fund is to account for the disbursement of occupational tax funds. The primary source of revenue for this fund is transfers from the Occupational Tax Administrator Fund.

Occupational Tax Administrator Fund - This fund is used to account for occupational tax receipts. Occupational tax revenues are recorded in this fund and then transferred to the Occupational Tax Fund.

Public Properties Corporation Justice Center Debt Service Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Public Properties Corporation, a blended component unit of the fiscal court.

Public Properties Corporation Justice Center Capital Projects Fund - The purpose of this fund is to account for the construction activities of the Public Properties Corporation, a blended component unit of the fiscal court.

The primary government also has the following non-major funds: Federal Grant Fund, Emergency 911 Fund, and Wireless 911 Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.



**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds (Continued)**

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term-debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Public Properties Corporation Justice Center Debt Service and Public Properties Corporation Justice Center Capital Projects Fund are not budgeted. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Related Organizations, Joint Venture, and Jointly Governed Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Marshall County Fiscal Court: Marshall County Hospital, Jonathan Creek Water District, Aurora Sewer District, Marshall County Library, North Marshall Water District, Draffenville Sewer District, and Marshall County Cemetery Board.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Marshall County Fiscal Court: Purchase Area Industrial Authority Incorporated; Marshall County-Calvert City Riverport Authority; and Industrial Development Authority.

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits of the primary government and component units were covered by FDIC insurance or a properly executed collateral security agreement.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments**

As of June 30, 2005, the County had the following investments:

Investments	Maturity	Fair Value (Cost)
Money Market Accounts	Greater than 90 days	693,878

**Interest Rate Risk.** The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. . In general, money market accounts are not subject to interest rate risk.

**Credit Risk.** KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in on of the three highest categories by a nationally recognized rating agency. Bankers acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, money market accounts are not subject to investment credit risk or concentration of credit risk.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2005, the County's investments are insured or registered or the securities are held by the County or the County's agent in the County's name.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,847,714	\$ 59,686	\$	\$ 1,907,400
Total Capital Assets Not Being Depreciated	1,847,714	59,686		1,907,400
Capital Assets, Being Depreciated:				
Buildings	14,074,438	7,276		14,081,714
Vehicles and Equipment	3,922,950	380,868	(45,030)	4,258,788
Infrastructure	1,149,164	745,590		1,894,754
Total Capital Assets Being Depreciated	19,146,552	1,133,734	(45,030)	20,235,256
Less Accumulated Depreciation For:				
Buildings	(2,501,285)	(233,183)		(2,734,468)
Vehicles and Equipment	(2,169,493)	(312,983)	33,558	(2,448,918)
Infrastructure	(110,834)	(182,353)		(293,187)
Total Accumulated Depreciation	(4,781,612)	(728,519)	33,558	(5,476,573)
Total Capital Assets, Being Depreciated, Net	14,364,940	405,215	(11,472)	14,758,683
Governmental Activities Capital Assets, Net	\$ 16,212,654	\$ 464,901	\$ (11,472)	\$ 16,666,083

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 199,212
Protection to Persons and Property	138,260
Recreation and Culture	32,550
Roads, Including Depreciation of General Infrastructure Assets	<u>358,498</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 728,520</u>

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Capital asset activity for the discretely presented component unit for the year ended June 30, 2005 was as follows:

Discretely presented major component unit:	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Land and Land Improvements	805,287			805,287
Buildings	161,957			161,957
Vehicles and Equipment	867,776	202,708	(49,733)	1,020,751
Total Capital Assets Being Depreciated	1,835,020	202,708	(49,733)	1,987,995
Less Accumulated Depreciation For:				
Land and Land Improvements	(95,661)	(19,132)		(114,793)
Buildings	(29,710)	(3,014)		(32,724)
Vehicles and Equipment	(452,055)	(74,082)	16,107	(510,030)
Total Accumulated Depreciation	(577,426)	(96,228)	16,107	(657,547)
Capital Assets, Net	\$ 1,257,594	\$ 106,480	\$ (33,626)	\$ 1,330,448

Depreciation expense was charged to functions of the discretely presented component unit as follows:

Marshall County Refuse Disposal District	<u>\$ 96,228</u>
Total Depreciation Expense - Discretely Presented Component Unit	<u>\$ 96,228</u>

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 4. Long-term Debt**

**A. First Mortgage Revenue Bonds, Series 2000**

The Marshall County Public Properties Corporation entered into a bond issue on October 1, 2000, for the purpose of paying the cost of constructing a new county justice center facility and the cost of the issuance of the bonds. The issue amount of the bonds was \$8,005,000. The bonds will mature beginning March 1, 2003. The Administrative Office of the Courts (AOC) will be responsible for 74 percent of the cost of the bonds. The Public Properties Corporation will be responsible for the remaining balance of the cost. The outstanding balance as of June 30, 2005, was \$7,345,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 245,000	\$ 385,612
2007	265,000	372,750
2008	275,000	358,837
2009	285,000	344,400
2010	300,000	329,437
2011-2015	1,805,000	1,388,887
2016-2020	2,385,000	858,116
2021-2023	1,785,000	190,575
Totals	<u>\$ 7,345,000</u>	<u>\$ 4,228,614</u>

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Marshall County Caring/Needline Building**

On July 3, 2002, Marshall County Fiscal Court entered into a promissory note agreement with the Bank of Benton for the purchase of an office building. The principal amount was \$114,200 at an effective interest rate of 6.5 percent for a period of twenty years. In return, Marshall County leased the building to the Marshall County Caring/Needline. After an initial payment of \$50,000, which was used as a down payment on the purchase of the property, the Marshall County Caring/Needline has agreed to pay Marshall County Fiscal Court rental payments in amounts equal to the annual loan payments as stipulated in a lease agreement dated July 3, 2002. Upon the retirement of the debt, Marshall County Fiscal Court agrees to transfer the property to the Marshall County Caring/Needline. The outstanding balance of the note as of June 30, 2005 was \$92,705. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 3,531	\$ 6,912
2007	3,763	6,679
2008	3,994	6,449
2009	4,275	6,168
2010	4,556	5,886
2011-2015	27,684	24,550
2016-2020	38,090	14,124
2021-2023	6,812	2,664
Totals	<u>\$ 92,705</u>	<u>\$ 73,432</u>

**C. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 7,580,000	\$	\$ 235,000	\$ 7,345,000	\$ 245,000
Financing Obligations	107,835		15,130	92,705	3,531
Governmental Activities					
Long-term Liabilities	<u>\$ 7,687,835</u>	<u>\$</u>	<u>\$ 250,130</u>	<u>\$ 7,437,705</u>	<u>\$ 248,531</u>



**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$6,646 in interest on financing obligations and \$397,950 in interest on bonds and notes.

**Note 6. Receivables**

A. Elva/New Harmony/Oak Level Fire District

The County loaned \$30,000 to the Elva/New Harmony/Oak Level Fire District on July 21, 1999, for the purpose of renovating the Fire Department. Terms of the agreement stipulate a 12-year repayment schedule, interest free. The Fire District is in substantial compliance with the terms of the agreement. As of June 30, 2005, the principal balance due was \$22,000.

B. Fairdealing Fire Department

The County loaned \$30,000 to the Fairdealing Fire District on January 11, 2000, for the purpose of renovating the Fire Department. Terms of the agreement stipulate a 12-year repayment schedule, interest free. The Fire District is in substantial compliance with the terms of the agreement. The balance of the receivable was paid in full during the current fiscal year.

**Note 7. Related Party Transactions**

A. Timber Bridge Company

During the fiscal year, the County conducted business with the Timber Bridge Company of Kentucky for bridge materials. In November 2004, the County Judge/Executive filed a Statement of Financial Disclosure with the Marshall County Ethics Commission stating that he was employed as a salesman for Timber Bridge, and earned in excess of \$5,000 during the preceding calendar year. A letter dated August 17, 2001, from Timber Bridge Company of Kentucky, confirming its ongoing agreement with the County Judge/Executive, states that the County Judge/Executive is not due any commissions on sales in Marshall County. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.

B. Bank of Benton

During the fiscal year, the County maintained deposits with the Bank of Benton. In November 2004, the County Judge/Executive filed a Statement of Financial Disclosure with the Marshall County Ethics Commission stating that he owned an interest of at least \$10,000 in the Bank of Benton, and earned in excess of \$5,000 during the preceding calendar year from this interest. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 8. Employee Retirement System**

The fiscal court and the Marshall County Refuse Disposal District, a discretely presented component unit, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 9. Insurance**

For the fiscal year ended June 30, 2005, Marshall County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Landfill Closure and Post-closure Costs**

In 2002, the legislature passed House Bill No. 174 that among other things, provided for state assumption of responsibility for the costs of closure and remedial obligations for inactive solid waste landfills that ceased accepting waste prior to July 1, 1992. This is implemented as amendments to KRS Chapter 244, Subchapter 43. The Kentucky Division of Waste Management (Division) has determined that the Marshall County Landfill qualifies under this program for state assistance. However, as a necessary condition for performing this work, the Division required a legal right of entry granting permission for assessment and construction activities on the subject property. On February 8, 2005, the Marshall County Judge/Executive signed the right of entry to the Commonwealth of Kentucky and it's authorized agents the right to enter upon this land for the purpose of performing such activities.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 11. Prior Period Adjustment**

The beginning net assets for governmental activities was increased by \$99,232 due to \$17,819 for prior period voided checks and \$81,413 for a prior year check recorded in current year. In addition, the fund balances of the following governmental funds were also increased due to the voided checks. General fund by \$91,433; Jail fund by \$1,198; Occupational tax fund by \$6,496; Occupational tax administrator fund by \$95; and Emergency 911 fund by \$9.

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**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**



**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 2,150,000	\$ 2,150,000	\$ 2,373,004	\$ 223,004
In Lieu Tax Payments	423,000	423,000	462,372	39,372
Excess Fees	144,768	144,768	229,868	85,100
Licenses and Permits	110,000	110,000	88,853	(21,147)
Intergovernmental Revenue	558,100	558,100	674,134	116,034
Charges for Services	320,000	320,000	364,545	44,545
Miscellaneous	75,132	75,132	215,257	140,125
Interest	8,000	8,000	13,735	5,735
Total Revenues	<u>3,789,000</u>	<u>3,789,000</u>	<u>4,421,768</u>	<u>632,768</u>
<b>EXPENDITURES</b>				
General Government	2,083,057	2,326,857	1,999,867	326,990
Protection to Persons and Property	398,151	513,251	422,122	91,129
General Health and Sanitation	101,700	238,600	212,763	25,837
Social Services	422,092	468,592	434,437	34,155
Recreation and Culture	24,000	96,000	83,913	12,087
Debt Service			21,815	(21,815)
Capital Projects	75,000	75,000	75,000	
Administration	2,110,000	2,150,900	2,009,208	141,692
Total Expenditures	<u>5,214,000</u>	<u>5,869,200</u>	<u>5,259,125</u>	<u>610,075</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,425,000)</u>	<u>(2,080,200)</u>	<u>(837,357)</u>	<u>1,242,843</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(175,000)	(175,000)	(110,758)	64,242
Transfers From Other Funds	<u>800,000</u>	<u>800,000</u>	<u>1,000,000</u>	<u>200,000</u>
Total Other Financing Sources (Uses)	<u>625,000</u>	<u>625,000</u>	<u>889,242</u>	<u>264,242</u>
Net Changes in Fund Balance	(800,000)	(1,455,200)	51,885	1,507,085
Fund Balance - Beginning (Restated)	<u>800,000</u>	<u>800,000</u>	<u>960,454</u>	<u>160,454</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ (655,200)</u>	<u>\$ 1,012,339</u>	<u>\$ 1,667,539</u>

**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,003,000	\$ 1,003,000	\$ 1,081,666	\$ 78,666
Charges for Services	4,000	4,000	102,697	98,697
Miscellaneous	7,000	7,000	21,202	14,202
Interest	5,000	5,000	7,901	2,901
Total Revenues	1,019,000	1,019,000	1,213,466	194,466
<b>EXPENDITURES</b>				
Roads	1,011,204	1,182,304	1,093,183	89,121
Administration	157,796	163,496	144,652	18,844
Total Expenditures	1,169,000	1,345,800	1,237,835	107,965
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(150,000)	(326,800)	(24,369)	302,431
Net Changes in Fund Balance	(150,000)	(326,800)	(24,369)	302,431
Fund Balance - Beginning	150,000	150,000	383,969	233,969
Fund Balance - Ending	\$	\$ (176,800)	\$ 359,600	\$ 536,400



**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 841,000	\$ 841,000	\$ 1,312,717	\$ 471,717
Charges for Services	20,000	20,000	22,625	2,625
Miscellaneous	40,682	40,682	44,062	3,380
Interest	3,500	3,500	2,235	(1,265)
Total Revenues	905,182	905,182	1,381,639	476,457
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,131,182	1,192,982	1,133,273	59,709
Administration	174,000	197,000	192,012	4,988
Total Expenditures	1,305,182	1,389,982	1,325,285	64,697
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(400,000)	(484,800)	56,354	541,154
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	100,000	100,000		(100,000)
Total Other Financing Sources (Uses)	100,000	100,000		(100,000)
Net Changes in Fund Balance	(300,000)	(384,800)	56,354	441,154
Fund Balance - Beginning (Restated)	300,000	300,000	77,838	(222,162)
Fund Balance - Ending	\$	\$ (84,800)	\$ 134,192	\$ 218,992

**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>OCCUPATIONAL TAX FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Interest	\$ 5,000	\$ 5,000	\$ 7,031	\$ 2,031
Total Revenues	5,000	5,000	7,031	2,031
<b>EXPENDITURES</b>				
General Government	41,500	49,700	42,782	6,918
General Health and Sanitation	400,000	400,000	400,000	
Recreation and Culture	510,500	594,700	558,429	36,271
Roads	1,900,000	1,963,400	1,234,260	729,140
Administration	53,000	53,000	43,970	9,030
Total Expenditures	2,905,000	3,060,800	2,279,441	781,359
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,900,000)	(3,055,800)	(2,272,410)	783,390
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	2,400,000	2,400,000	2,400,000	
Total Other Financing Sources (Uses)	2,400,000	2,400,000	2,400,000	
Net Changes in Fund Balances	(500,000)	(655,800)	127,590	783,390
Fund Balances - Beginning	500,000	500,000	127,289	(372,711)
Fund Balances - Ending	\$	\$ (155,800)	\$ 254,879	\$ 410,679

**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>OCCUPATIONAL TAX ADMINISTRATOR FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 3,300,000	\$ 3,300,000	\$ 3,753,964	\$ 453,964
Interest	10,000	10,000	31,748	21,748
Total Revenues	3,310,000	3,310,000	3,785,712	475,712
<b>EXPENDITURES</b>				
General Government		160,000	158,702	1,298
Administration	1,000,000			
Total Expenditures	1,000,000	160,000	158,702	1,298
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	2,310,000	3,150,000	3,627,010	477,010
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(3,300,000)	(3,300,000)	(3,400,000)	(100,000)
Total Other Financing Sources (Uses)	(3,300,000)	(3,300,000)	(3,400,000)	(100,000)
Net Changes in Fund Balances	(990,000)	(150,000)	227,010	377,010
Fund Balances - Beginning	990,000	990,000	2,107,133	1,117,133
Fund Balances - Ending	\$	\$ 840,000	\$ 2,334,143	\$ 1,494,143

**MARSHALL COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MARSHALL COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2005**



**MARSHALL COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**

	<b>Federal Grant Fund</b>	<b>Emergency 911 Fund</b>	<b>Wireless 911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 307,190	\$ 192,677	\$ 117,067	\$ 616,934
Total Assets	<u>\$ 307,190</u>	<u>\$ 192,677</u>	<u>\$ 117,067</u>	<u>\$ 616,934</u>
<b>FUND BALANCES</b>				
Unreserved:				
Special Revenue Funds	\$ 307,190	\$ 192,677	\$ 117,067	\$ 616,934
Total Fund Balances	<u>\$ 307,190</u>	<u>\$ 192,677</u>	<u>\$ 117,067</u>	<u>\$ 616,934</u>

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**MARSHALL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**



**MARSHALL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

	<b>Federal Grant Fund</b>	<b>Emergency 911 Fund</b>	<b>Wireless 911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>				
Taxes	\$ -	\$ 309,429	\$ -	\$ 309,429
Intergovernmental	-	-	72,707	72,707
Miscellaneous	-	63	-	63
Interest	4,450	8,685	-	13,135
Total Revenues	<u>\$ 4,450</u>	<u>\$ 318,177</u>	<u>\$ 72,707</u>	<u>\$ 395,334</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	\$ -	\$ 313,094	\$ 115,348	\$ 428,442
General Health and Sanitation	10,160	-	-	10,160
Administration	-	57,234	-	57,234
Total Expenditures	<u>\$ 10,160</u>	<u>\$ 370,328</u>	<u>\$ 115,348</u>	<u>\$ 495,836</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,710)</u>	<u>(52,151)</u>	<u>(42,641)</u>	<u>(100,502)</u>
Net Change in Fund Balances	(5,710)	(52,151)	(42,641)	(100,502)
Fund Balances - Beginning (Restated)	312,900	244,828	159,708	717,436
Fund Balances - Ending	<u><u>\$ 307,190</u></u>	<u><u>\$ 192,677</u></u>	<u><u>\$ 117,067</u></u>	<u><u>\$ 616,934</u></u>

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## **COMMENTS AND RECOMMENDATIONS**



**MARSHALL COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended 30, 2005**

**INTERNAL CONTROL-REPORTABLE CONDITIONS:**

**A. Health Insurance Expenditures Totaling \$29,839 Were Improperly Paid On Behalf Of Employees**

There were twelve employees for whom the Payroll Officer continued to pay premiums to the health insurance company after they were terminated or resigned from county employment. There was also a former employee who received health insurance benefits that did not qualify to participate in the county's group health insurance plan. County staff found the mistakes and the insurance company was notified. The health insurance company allowed credit for some of these overpayments; however, net overpayment to the health insurance company totaled \$28,061. There were also two employees who were undercharged \$1,778. The county had 177 employees who received health insurance benefits July 2004. The county's annual health insurance cost was \$983,391. County personnel discovered that health insurance premiums were improperly paid. Health insurance invoices were reviewed and reconciled with payroll records, before June 30, 2005. Whenever possible, credits were requested from the health insurance company to offset these overpayments.

- The county's net overpayment to the health insurance company for five former employees was \$17,497. The earliest employee termination date was September 15, 2002 and the latest termination date was November 29, 2003. The health insurance company allowed 15 months of credit for these employees. The county has not received any reimbursements or may not be due any reimbursements from these employees.
- Two (2) former employees were terminated and the county overpaid their health insurance by \$721. The earliest employee termination date was March 9, 2004 and the latest termination date was May 14, 2004. The county has not received any reimbursements or may not be due any reimbursements from these employees.
- The health insurance company reimbursed the county \$1,731 after the errors were found, however the county still overpaid the health insurance company \$2,009.
- The county paid \$7,834 of health insurance premiums for the benefit of a former employee that did not qualify to be on the county's health insurance plan. Fiscal court requires an employee to work at least 100 hours per month to qualify for group health insurance benefits. The coverage period was from November 2002 through October 2004 and the health insurance company allowed no credits. The county has not been reimbursed for this expense.
- There were four (4) former employees that had health insurance improperly paid. The health insurance company allowed credit to offset these overpayments and no funds were lost.
- We found two current employees who were undercharged health insurance premiums of \$1,778 from July 2004 through December 2004.

There was no established procedure for reconciling health insurance invoices of the county. This is a serious concern and we strongly suggest that a formal reconciliation policy be implemented to provide for better control in this area. This policy should be approved by fiscal court. The County Treasurer should perform an independent periodic review of the health insurance invoices to verify the individuals listed are current employees and meet the necessary requirements to receive benefits. To improve control even further, the County Treasurer should verify that the appropriate amount is being withheld from the employees check in conjunction with verifying the county is paying the appropriate employer cost. We further recommend that the County Attorney review this matter to determine if any further actions are necessary.

**MARSHALL COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**JUNE 30, 2005**  
**(Continued)**

**INTERNAL CONTROL-REPORTABLE CONDITIONS: (Continued)**

**A. Health Insurance Expenditures Totaling \$29,839 Were Improperly Paid On Behalf Of Employees**  
**(Continued)**

*County Judge/Executive Mike Miller's Response: We acknowledge the problems with the health insurance invoices. We are committed to making sure that there is no reoccurrence. We will incorporate your recommendations into our procedures.*

**B. Reimbursement Was Paid To A Magistrate In Excess Of Fiscal Court Policy**

A Magistrate was registered and attended the Kentucky County Judge/Executive's Association Winter Conference held in Lexington, Kentucky. The conference began Wednesday, February 2, 2005, and ended Friday, February 4, 2005.

The Magistrate traveled to Louisville, Kentucky, the day before the conference started and stayed at a hotel. Wednesday morning he left for Lexington and checked into the hotel where the conference was being held. Wednesday evening he had dinner with his wife for a cost of \$106. This dinner included an alcohol charge of \$8. Thursday there was a room service charge of \$13. Friday morning the Magistrate checked out of the hotel and had lunch with three "unidentified" guests costing \$25.

The Magistrate submitted a claim to fiscal court for \$521 and was reimbursed by the county. He paid \$8 back to the county May 18, 2005, for the alcohol charge. Included in the claim for \$521 was a charge of \$98 for mileage cost of a one-way trip from Lexington to Benton, not the round trip.

The fiscal court had a travel policy, which applies to all county employees in place at the time that the claim was submitted by the Magistrate. Excerpts are as follows:

- 1) Official travel in privately owned vehicles shall be reimbursed in accordance with the federal rate of reimbursement.
- 2) Lodging shall be reimbursable at the actual expense (government discount rates where possible). Receipts shall be provided for all lodgings.
- 3) An employee shall be reimbursed for actual expenses incurred for meals only if the employee's travel includes overnight stay. The fiscal court subsequently revised their policy to meals per diem.
- 4) The following items are not subject to reimbursement:
  - Alcoholic beverages.
  - Entertainment.
  - Laundry and dry cleaning.
  - Expense of spouse while traveling with employee.
  - Any allowable expense whereby the employee provides no receipt as documentation.

We recommend that the reimbursement paid to the magistrate be reviewed in accordance with the Fiscal Court policy.

*County Judge/Executive Mike Miller's Response: The Fiscal Court, on September 20, 2005 changed their travel reimbursement policy so that meals will be paid on the state per diem rate. We will also review the referenced claim.*



**MARSHALL COUNTY  
COMMENTS AND RECOMMENDATIONS  
JUNE 30, 2005  
(Continued)**

**INTERNAL CONTROL-REPORTABLE CONDITIONS: (Continued)**

**C. Bank Accounts Were Improperly Listed Under The County's Federal Identification Number**

Audit tests resulted in the discovery of the following bank accounts listed under the Federal Identification Number (F.I.N.) of the County:

- Ambulance Service
- Marshall County Family Week
- Relay For Life
- KY Dam 50<sup>th</sup> Anniversary Convention Fund

Based on our review, these accounts should not use the F.I.N. of the county. We strongly recommend that only the operational accounts of the County be listed under their F.I.N. number. The above organizations should complete the appropriate paperwork to obtain a separate F.I.N. and remove the County's F.I.N. from the existing accounts and the financial information should be provided to the program oversight entity.

*County Judge/Executive Mike Miller's Response:*

*We will instruct the bank to remove the County F.I.N. from these accounts.*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



KEM, DUGUID & ASSOCIATES, P.S.C.

*Certified Public Accountants*

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MICHAEL A. KEM

SANDRA D. DUGUID

The Honorable Mike Miller, Marshall County Judge/Executive  
Members of the Marshall County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 21, 2005. We did not audit the financial statements of the Marshall County Refuse Disposal District. Other auditors whose reports have been furnished to us audited those financial statements. Marshall County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marshall County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Health Insurance Premiums Totaling \$29,839 Were Improperly Paid On Behalf Of Employees
- Reimbursement Was Paid To A Magistrate In Excess Of Fiscal Court Policy
- Bank Accounts Were Improperly Listed Under The County's Federal Identification Number

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MEMBERS:

American Institute of Certified Public Accountants

Kentucky Society of Certified Public Accountants

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe the reportable conditions described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Marshall County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Kem, Duguid & Associates*

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Audit fieldwork completed -  
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